

Microenterprise Best Practices Concept Paper

Topic 20:

Microenterprise Development and Social Safety Nets

Background

Within the field of microenterprise research and practice, the dominant focus has been on its role as an economic development strategy. Critical questions for practitioners have included: how can we develop sustainable microfinance services that have the capacity to serve ever large numbers of microentrepreneurs and their families? How can we develop a mix of products and services that can enable their businesses to grow, and their households to build assets? How can we improve the "enabling environment" to facilitate the management of financial services by emerging microfinance institutions?

Less dominant has been a focus on the intersection of microenterprise practice with the harsh environment of natural and man-made catastrophe which is the context for millions of the poorer candidates for enterprise development services. And, the literature illuminates how this environment has worsened over the last ten years:

- C A "systemic economic crisis" has emerged in parts of Africa, the Middle East, Eastern Europe, and the former Soviet Union, among other places, with the result being growing income disparities, and increasing international economic migration. Some 60 million were estimated to be economic refugees in 1993. This crisis is seen by some observers as a by-product of the formation of linked but contending economic blocs in North America, West Europe and East Africa which have marginalized those outside.
- C There is increasing political instability, evidenced by the steady rise in the number of ongoing wars -- from ten in 1960 to around 50 in 1994. The majority of these are internal rather than international, and have resulted in 20 million global refugees, and an equal number of internally displaced people. In Africa alone, the number of refugees has increased from one million in 1970 to 16 million in 1994, a rate of increase of 12% a year. In 1993, there were 26 UN designated "complex emergencies" affecting 59 million people. All, except Haiti, were found in Africa and Eurasia.
- C Further exacerbating the situation has been the changing character of internal wars -- from ideologically driven wars of liberation to "resource wars that lack a clear social programme." (Duffield 1991). Rather than temporary, violence has become endemic and linked to processes of state disintegration. This has meant more protracted episodes of economic and political upheaval, and the creation of large groups of citizens whose economic livelihoods depend on war and pillage. Operating outside traditional norms, they have limited skills and property, and no stake in the normal world of work.

These changes play out against landscapes in which natural disasters continue to have disproportionate impact on the poor in society. Few mechanisms exist to prepare for or mitigate against risks. The effect is that the poor, more and more, live with the risk of crisis, and must plan for "uncertainty [and in some places, emergency] as norm." (Mortimer 1989,

Maxwell 1994)

It is within these contexts that a number of practitioner agencies are trying to apply the principles and concepts of microenterprise development. SEEP member agencies such as Catholic Relief Services, Save the Children and World Relief are engaged in enterprise activities in Cambodia, Mozambique, Liberia, Rwanda, Burundi, Afghanistan, Tajikistan, the West Bank/Jordan to name a few. And as they've done so, they've faced a set of distinctive challenges: how do they maintain the security of staff; how do they work within situations of distrust, of high social mobility; where infrastructure is lacking, and where refugees suffer from the psychology of impermanence.

Even in more "normal" development contexts, there are organizations that have set their sights on the most vulnerable of populations: Helen Keller International working with the vision-impaired; Trickle Up with street children as examples.

In all of these circumstances, the question is: how can microenterprise strategies help create or substitute for the social safety nets that are not there? How can they function preemptively to strengthen the ability of clients to survive emergencies when they hit? How can they help people suffering from the most serious disasters overcome them?

Conceptual Framework

In researching answers to these questions, the relief to development continuum-- which lays out the flow and interrelationship of aid initiatives in the context of situations of great instability-- can serve as a guide. Figure 1 outlines one view of this continuum.

The continuum recognizes that many of the people which microenterprise practitioners try to serve live at risk of loss due to a variety of disasters: chronic and acute, natural and man-made. It also places development efforts within a larger framework of assistance efforts that overlap. Rather than discrete activities, disaster mitigation, relief, reconstruction and development are modes of intervention that blend over time, and need to be implemented in ways that are mutually supportive.

The development stage of assistance corresponds to those periods of normality when society is not in proximate danger of either physical or man-made disasters. For the poorest, especially in rural areas, this normality still includes periods of great vulnerability. Income and assets may drop significantly during the hungry season. Food security (and therefore household survival) depends on the availability of food, on peoples' ability to acquire it, as well as on its nutritional utilization. Most poverty-oriented microenterprise development programs support increased food security through interventions aimed at income smoothing -- emphasizing diversification of economic activities with a special focus on lean periods-- and at increasing the client's store of savings to draw on. This relationship between microenterprise and food security can be strengthened by specific program adaptations such as seasonally determined cycle lengths in village banking, loans for food storage projects and cash-oriented agriculture that help borrowers increase their income streams, and strengthen their reserves.

When normality is affected by disaster, the poorest are pushed toward greater food insecurity. Depending on the acuteness of the catalysts, and the poor's level of vulnerability, they apply ever more extreme coping strategies, liquidating assets, decreasing food intake, and compromising their medium and

long term future.

The type of disaster conditions the impact on people, its duration and the possibility that mitigating interventions can reduce the severity of the event. Those whose force cannot be ameliorated require much larger relief efforts followed by reconstruction and rehabilitation efforts. When successful, relief and reconstruction can give place again to development efforts as the situation returns to normality. Ultimately it is hoped that successful development efforts will result in an escape from the conditions of vulnerability that make the effects of these disasters so harsh on the poor.

It is also important to note that there are strong differences between those disasters that are naturally- caused and those caused by man-made effects. The macro, micro, and meso conditions that exist differ significantly, and affect the type of institutions and products that can be developed to deal with the situation. As one example, social networks and physical assets are highly destroyed in conflict affected countries leading to mistrust and lack of and/or low value for physical assets. This makes the use of group liability and collateral based lending technologies very difficult to implement in conflict-affected countries. On the contrary, a country affected by natural disasters is not affected by major displacement of peoples and destruction of peace and trust; therefore, group based technologies may work, as they do in Bangladesh. A second example relates to insurance: crop insurance strategies can be applied to mitigate natural disasters, but it is rare that war insurance can be offered. Thus, the types of institutions and products must differ by the type of disaster, and its depth.

Implications for Microenterprise Practice

For practitioners to provide support within this context, there is a need to consider how the conditions of each phase of the continuum and the type of disaster create opportunities and constraints for microenterprise development. As mentioned above, attention to the cycles and triggers of food insecurity can lead to adjustments in loan terms and participation requirements, acceptable loan purposes, and with some care, a blending with food aid. Contexts affected by chronic natural disasters appear amenable to insurance schemes as well as special loan products (such as housing loans) that support reconstruction efforts.

The more complex emergencies, as are now taking place in Rwanda, Bosnia, and the transitional economies require adaptations to microloan methodologies that take into account significant constraints. These adaptations have ranged from adjustments in the peer mechanisms to re-build social cooperation (such as adding solidarity groups within village bank structures), to developing in-kind repayment systems in high inflation economies, to establishing methods for the safe movement and storage of cash, to establishing mobile programs capable of following returning refugees. This brief listing of innovations merely hints at the considerable re-thinking and re-working in which practitioners addressing complex disasters are engaged. Underlying these adaptations is an effort to develop strategies whose goals are not only economic reconstruction (or development), but also support the re-establishment of peace and civil society. These aims are forcing a profound re-thinking of the accepted answers regarding the definition and time frame for sustainability, the focus and methods of group formation, and the types of integration that should be supported. (One SEEP member, for example, is exploring the potential to integrate microenterprise development and conflict resolution.)

Substantive Questions

These considerations suggest at least three area of inquiry for MBP research:

For programs aimed at strengthening the most vulnerable groups in anticipation of the harsher phases of the continuum, what specific adaptations must be made to standard microfinance methodologies in order that they can serve a social safety net function? Are there additional economic education and/or business development services required to support their success in income generating activities? Are there particular savings strategies that should be pursued to facilitate more rapid asset building? (In the United States, for example, a demonstration project to assist the poor build savings with individual development accounts has the very aim of facilitating and accelerating the accumulation of resources to support investments in key household, business, and human assets.) What are the cost implications and the expectations for sustainability?

For those located in contexts of chronic emergencies (such as floods, cyclones, droughts, etc.), what types of insurance and loan products can programs develop in anticipation of these disasters? To what extent can these be designed and implemented with the same vision of self-sufficiency that their more standard products carry? What is the impact of these emergencies on the regular portfolio? Or, how do programs structure clients' obligations to protect it during emergency conditions?

For those practitioners engaged in post-conflict complex emergency situations, what are the most appropriate adaptations to the policies and procedures of standard methodologies? How do programs blend goals of economic recovery, community re-building, and the promotion of peace? How, in particular, does working with refugee populations change the nature of the intervention? What are the outcomes that can be expected, and at what pace? Most especially, how should sustainability be conceptualized, and what are reasonable expectations for when financial self-sufficiency might be achieved? (It has been argued, for example, that a focus on community re-building and institutional development is first required.)

In each of these instances, it is important to consider how the type of implementing institution affects program design and implementation. Government, donor agencies, and NGOs may have different missions, values and operating principles that determine the package of services offered, the process of delivery, and the outcomes that can be achieved. It is also important to consider the trade-offs between different goals, such as outreach and sustainability within certain time-bound phases of intervention.

Deliverables

This MBP research topic is limited to only two deliverables, each a review paper, and neither with travel funds. This seriously constrains the breadth and depth of the research agenda that can be implemented. Within these restrictions, it is proposed that each paper be focused on an inventory and documentation of current practice, with a more in-depth look at a few key experiences that illuminate the strategies. Issues for further research would also be identified.

Deliverable 1: Microenterprise Development in Complex, Man-made Emergencies

Given the substantial participation of SEEP member organizations in situations of this type, as well as the serious efforts to understand and develop new strategies to address these tragic, politically motivated situations, it is proposed that this be the first deliverable. The review paper would attempt to document practices of two to three organizations in at least three post-conflict countries in Africa, Asia, Eastern Europe and the emerging republics of the former Soviet Union. An effort will be made to illuminate how environmental conditions (political, economic, infra structural) affect programs, and consequently how they have addressed the following critical issues: conceptualization of goals and objectives, institutional selection criteria and institutional development requirements, staffing, methodological adaptations, operational considerations, financing and sustainability strategies. Distinctions in short and long term strategies will be illuminated, and an attempt will be made both to extract common lessons as well as what is distinctive in the approaches implemented. The research will also attempt to focus on two to three cases in greater depth using background documentation and key interviews of headquarters personnel to illustrate the lessons and challenges of practice in a more substantial way.

Deliverable 2: Microenterprise Development as a Mitigation Strategy in Natural Disasters

This paper will provide an inventory/in depth case study of practices of at least three to five programs implemented by various agents: NGOs, government, and limited informal strategies, and reflecting some variation in design like crop/livestock/warehouse insurance, change in loan terms and conditions, roll over of debt, debt forgiveness, food aid and food for work programs (as seen in India, etc.). Potential countries and type of disaster that will be included in the study include: Bangladesh (floods); Philippines and Mexico (earthquakes); Ethiopia, Sudan and other West African countries (drought). The inventory will focus on: participants, objectives, source of funds, design of the specific program, terms and conditions, subsidy involved, costs and outreach and sustainability. Finally, the paper will focus on the interrelationships between the product designed for disaster management and other products provided by the implementing institution to see if there are any economies of scale and scope. Importance will be given to identification of exit conditions of these implementing agencies for provision of disaster relief versus disaster management strategies.

Both of these reviews are expected to help derive lessons and challenges in disaster mitigation/management through enterprise development.

Keeping the Topic Relevant

As a number of SEEP practitioners actively apply microenterprise in emergency conditions, MBP could keep abreast of learning and innovation through contact with SEEP members in such fora as SEEP's annual meetings as well as specially scheduled discussion sessions. While there is no working group within SEEP solely devoted to this issue, many of these institutions participate in SEEP's Poverty Lending Working Group, and that segment of this group could serve as a focal point for review of papers, and additional information.

It is also proposed that MBP use some of its learning and dissemination resources to convoke a session on these issues, particularly related to natural and complex emergencies. In addition to the regular enterprise practitioners, it is recommended that participants from OFDA, International Rescue Committee, Red Cross and leading researchers focused on disaster relief practice be invited to share insights regarding how best to apply microenterprise

assistance in these situations. This type of dialogue would allow for a joint creation of frameworks and practical lessons that would be helpful in documenting this aspect of the field.

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